

DRAFT

Agenda Item #4514

WATER/JPT/MXK/EYC:jjj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

**RESOLUTION NO. W-4533
May 5, 2005**

R E S O L U T I O N

**(RES. W-4533), DEL ORO WATER COMPANY (DOWC), PARADISE
PINES DISTRICT (PPD). ORDER AUTHORIZING A GENERAL
RATE INCREASE PRODUCING ADDITIONAL ANNUAL REVENUE
OF \$97,540 OR 7.07% IN 2005.**

SUMMARY

By Draft Advice Letter, filed on August 31, 2004, DOWC seeks an increase in its rates for water service to recover increased expenses of operation and earn an adequate return on its plant investment. For Test Year 2005, this resolution grants an increase in gross annual revenues of \$97,540 or 7.07%, which is estimated to provide a return on rate base of 8.42%.

BACKGROUND

DOWC has requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase its water rates by \$183,163 or 13.28%, in Test Year 2005. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. DOWC's request shows gross revenues of \$1,379,343 at present rates would increase to \$1,562,506 at proposed rates. DOWC is requesting a return-on-rate base of 10.77%.

The present rates became effective on September 23, 2004, pursuant to Res. W-4500, which authorized a one-time water quantity surcharge producing \$5,842 or 0.46% additional annual revenue. The last general rate increase was granted on June 6, 2002, pursuant to Res. W-4333, which authorized a gross revenue increase of \$121,745 or 10.51% additional annual revenue, resulting in a rate of return on rate base of 9.97% for Test Year 2002.

PPD is a district of the Del Oro Corporation owned by Mr. Robert Fortino. PPD serves approximately 4,634 metered service connections serving approximately 11,585

customers in the service area in and around the community of Paradise Pines in Butte County. Del Oro has other districts serving communities of Ferndale in Humboldt County; Magalia, Lime Saddle, and Stirling Bluffs in Butte County; Johnson Park in Shasta County; Country Estates in Kern County; and Pine Mountain and Pine Flat in Tulare County.

PPD obtains its water supply from a series of six wells, all located in its service area. Currently, only four wells are operational as the other wells are on standby. Water from wells is pumped and boosted to three steel tanks with a total capacity of 2,940,000 gallons. The PPD water distribution system is a grid type with no major transmission mains. DOWC also purchases water from the Paradise Irrigation District.

DISCUSSION

The Water Division (Division) made an independent analysis of DOWC's summary of earnings and issued its report in March 2005. Appendix A shows DOWC's and the Division's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows differences in DOWC's and the Division's estimates in operating revenues, expenses, and rate base. DOWC was informed of the Division's differing views of revenues, expenses, and rate base and agrees with the Division's findings.

The major differences in expenses were in the (1) Power, (2) Management Salaries, (3) General Expenses, and (4) Property Taxes accounts. The Division estimates were made using actual billings and past-recorded expenses. The Division audited actual bills for property taxes and general expenses to make its estimates, and relied on past recorded amounts and current tariffs for power.

For the Power account, the Division applied the latest electric rate schedules for Pacific Gas and Electric Company to determine test year costs. For the general office allocated expenses, which includes the management salary category, the Division accepted the revised estimates which included the allocated amounts for the new Pine Flats and Pine Mountain districts. For the general expenses, Division recommended the three-year average which included prior billings for the Department of Health Services (DHS) and United States Environmental Protection Agency (EPA) lab fees. For the property taxes, the Division obtained and used actual property tax bills to make its estimate.

DOWC's draft advice letter requested rates that would produce a return-on-rate base of 10.77%. The Water Division's Audit & Compliance Branch has conducted an analysis of the financial market changes with the last year and the high operational risk faced by

Class B water companies and has determined that the appropriate range for return on rate base is 8.42%. Using the rate of return of 8.42%, the Division calculates a revenue requirement of \$1,476,883.

The summary of earnings in Appendix A shows a recommended return-on-rate base of 8.42% at adopted rates. This return-on-rate base is the recommended range for DOWC to reflect a well-run operation with good customer service.

Decision 92-03-093 allows Class B utilities to recover up to 50% of fixed costs in their readiness-to-serve charge. The rates shown in Appendix B recover 45% of the utility's fixed cost. The Division was unable to recommend the maximum ratio of 50%, as it would result in some customers receiving bills more than twice the system average increase; thereby, violating long-standing Commission policy. DOWC's current rate structure consists of one schedule: Schedule No. PP-1A, Annual General Metered Service. The new rate schedule can be found in Appendix B.

At the Branch's recommended rates shown in Appendix A, the monthly bill for a 5/8 x 3/4-inch metered customer using 10.0 Ccf (One Ccf equals 100 cubic feet) will increase from \$23.52 to \$24.99 or 6.23%. The monthly bill for a 1-inch metered customer using 15.0 Ccf will increase from \$45.63 to \$48.19 or 5.62%. Bill comparisons are shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

The Division staff audited operating expenses, including salaries and contracting fees, purchased power, insurance expenses, transportation expenses, office services and rentals, office supplies and expenses, general expenses, depreciation, and property taxes. Staff verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included those expenses that were deemed reasonable and prudent.

NOTICE AND PUBLIC MEETING

A notice of the proposed rate increase was mailed to each customer on or prior to October 21, 2004. The Division and DOWC received two letters opposed to the rate increase. During the past year, four complaints were filed with the Commission's Consumer Services Division against DOWC, all of which have been resolved. An informal public meeting was held Tuesday, November 16, 2004, at the Paradise Pines Elementary School located in Magalia. The meeting started at 7:00 P.M., and adjourned at 8:00 P. M., with three customers in attendance. The Division representative explained Commission procedures, as well as the purpose of the meeting. DOWC's representative made a presentation to explain the need for the rate increase. The rest of the meeting consisted of comments and questions by the

customers. Most of the questions and comments were general in nature and dealt with PPD's revenues, expenses, investments, and requested increase.

One customer wanted to know why rates were higher for PPD than for a city-owned municipality. He also asked when DOWC last filed for a General Rate Case and the Commission's procedures to process the rate increase request. Another customer asked about the main replacement program and the availability of reserve funds to finance these projects. Customers acknowledged that the water quality and pressure are good in the area. They also noted that there have been no unplanned outages in recent years, and the only instances were for coordinated flushing of the main lines. Generally, the customers are satisfied with the performance of the company. One customer mentioned that the plant superintendent should be paid more due to late hours and amount of time spent on fixing leaks in the system. DOWC's representatives explained that the company has been implementing a main repair and replacement program to minimize leaks in the system.

COMPLIANCE

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required. According to the DHS, the utility currently meets all applicable water quality standards.

FINDINGS

1. The Division's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
4. The rate increase proposed by the Division is justified. The resulting rates are just and reasonable.
5. This is an uncontested matter subject to the public notice comment exclusion provided in the Public Utilities Code Section 311(g)(3).

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Del Oro Water Company, Paradise Pines District to file an advice letter incorporating the summary of earnings and the revised rate schedules attached to this resolution as Appendices A and B, respectively, and concurrently cancel its presently effective rate Schedule No. PP-1A, Annual General Metered Service. The effective date of the revised rate schedule shall be five days after the date of filing.
2. Del Oro Water Company, Paradise Pines District is authorized to increase its annual revenues by \$97,540 or 7.07%, based on reasonable rates for 2005.
3. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on May 5, 2005; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

APPENDIX A
DEL ORO WATER COMPANY
PARADISE PINES DISTRICT
SUMMARY OF EARNINGS

TEST YEAR 2005

Item	Utility Estimated		Branch Estimated		Adopted
	Present Rates	Requested Rates	Present Rates	Requested Rates	
<u>Operating Revenue</u>					
Metered Rates	\$ 1,379,343	\$ 1,562,506	\$ 1,379,343	\$ 1,562,388	\$ 1,476,685
Total Revenue	\$ 1,379,343	\$ 1,562,506	\$ 1,379,343	\$ 1,562,388	\$ 1,476,685
<u>Operating Expenses</u>					
Power	251,402	251,402	238,449	238,449	238,449
Purchased Water	12,474	12,474	12,474	12,474	12,474
Other Volume Related	1,046	1,046	1,046	1,046	1,046
Employee Labor	162,648	162,648	160,636	160,636	160,636
Materials	27,256	27,256	27,256	27,256	27,256
Contract Work	18,636	18,636	18,636	18,636	18,636
Transportation Exp.	33,869	33,869	33,369	33,369	33,369
Other Plant Maintenance	522	522	522	522	522
Office Salaries	216,062	216,062	207,233	207,233	207,233
Management Salaries	87,836	87,836	84,247	84,247	84,247
Employee Benefits	83,963	83,963	83,963	83,963	83,963
Uncollectibles	6,329	6,329	6,329	6,329	6,329
Office Services & Rental	78,241	78,241	74,369	74,369	74,369
Office Suppl. & Exp.	49,483	49,483	47,461	47,461	47,461
Professional Services	16,405	16,405	15,734	15,734	15,734
Insurance	61,845	61,845	61,845	61,845	61,845
Regulatory Comm. Exp.	3,400	3,400	3,400	3,400	3,400
General Expenses	4,769	4,769	8,720	8,720	8,720
Subtotal	\$1,116,186	\$1,116,186	\$1,085,689	\$1,085,689	\$1,085,689
Depreciation Expense	\$127,056	\$127,056	\$127,056	\$127,056	\$127,056
Property Taxes	21,545	21,545	19,863	\$19,863	\$19,863
Payroll Taxes	37,991	37,991	36,851	\$36,851	\$36,851
State Income Tax	800	10,622	800	17,608	9,495
Federal Income Tax	0	23,653	0	50,221	21,739
Total Deductions	\$1,303,578	\$1,337,053	\$1,270,258	\$1,337,287	\$1,300,693
<u>Net Revenue</u>	\$75,765	\$225,453	\$109,085	\$225,101	\$175,993
<u>Rate Base</u>					
Average Plant	5,981,180	5,981,180	5,981,180	5,981,180	5,981,180
Avr. Accum. Deprec.	3,722,276	3,722,276	3,722,276	3,722,276	3,722,276
Net Plant	2,258,905	2,258,905	2,258,905	2,258,905	2,258,905
Plus: Working Cash	93,015	93,015	93,015	93,015	93,015
Materials & Supplies	7,000	7,000	7,000	7,000	7,000
Less: CIAC	168,228	168,228	168,228	168,228	168,228
Advances for Construction	98,176	98,176	98,176	98,176	98,176
<u>Rate Base</u>	\$2,092,516	\$2,092,516	\$2,092,516	\$2,092,516	\$2,092,516
<u>Rate of Return</u>	3.62%	10.77%	5.21%	10.76%	8.42%

APPENDIX B

Del Oro Water Company
Paradise Pines District
Schedule No. PP-1A

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to all water service furnished on an annual basis to the Paradise Pines District service area

TERRITORY

All territory served by Del Oro Water Company, Inc. in the area known as Fir Haven Subdivision, Sierra Del Oro Subdivisions, Paradise Pines Subdivisions, and vicinity, located approximately 6 miles north of Paradise, Butte County.

RATES

Quantity Rates:

For all water, per 100 cu. ft.	\$ 1.427 (I)
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Service Charge:

	Per Meter
	<u>Per Month</u>
For 5/8 x 3/4-inch meter	\$ 10.72 (I)
For 3/4-inch meter	\$ 16.07
For 1-inch meter	\$ 26.79
For 1-1/2-inch meter	\$ 53.58
For 2-inch meter	\$ 85.73
For 3-inch meter	\$160.74
For 4-inch meter	\$267.90
For 6-inch meter	\$535.80 (I)

The Service Charge is a readiness-to-serve charge, which is applicable to all metered service and to which is added the water used computed at the Quantity Rate.

APPENDIX C
BILL COMPARISON

Monthly Bill Comparison for a customer with a 5/8 x 3/4 -inch metered service:

<u>Usage</u> <u>100 cu.ft.</u>	<u>Present</u> <u>Rates</u>	<u>Recommended</u> <u>Rates</u>	<u>Amount</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
0	10.10	10.72	0.62	6.10%
10	23.52	24.99	1.47	6.23%
15	30.23	32.12	1.89	6.26%
20	36.94	39.26	2.32	6.27%
30	50.36	53.53	3.17	6.29%

Monthly Bill Comparison for a customer with a 1 -inch metered service:

<u>Usage</u> <u>100 cu.ft.</u>	<u>Present</u> <u>Rates</u>	<u>Recommended</u> <u>Rates</u>	<u>Amount</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
0	25.50	26.79	1.29	5.06%
10	38.92	41.06	2.14	5.50%
15	45.63	48.19	2.56	5.62%
20	52.34	55.33	2.99	5.71%
30	65.76	69.60	3.84	5.84%

APPENDIX D

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**Del Oro Water Company
Paradise Pines District
Adopted Quantities
Test Year 2005**

1. Purchased power (Electric)

Vendor
Schedules

Pacific Gas & Electric Company
A-6: Small General Time of Use Service
A-1: Small General Service

Effective Date

3/1/2005

Filed Date

3/1/2005

Total Rate per kWh

A-6: Winter Energy Charge

part peak

\$0.13915

off peak

\$0.09492

Summer Energy Charge

on peak

\$0.27233

part peak

\$0.12789

off peak

\$0.08123

A-1: Winter Charge

\$0.12072

Summer Charge

\$0.18181

Total Power Consumption in kWh

1,947,629

Total Purchased Power (\$)

\$238,449

2. Purchased water

Units purchased in Ccf

Stirling Bluffs

1327

Paradise Irrigation District Wheeling

1327

3. General Expenses

(DHS and EPA Lab Fees included)

\$8,720

4. Ad Valorem Taxes

\$19,863

Composite Tax Rate

1.066%

5. Number of Service Connections:

Metered Rate

1

5/8 x 3/4-inch service

4585

3/4-inch service

0

1-inch service

26

1/2-inch service

10

2-inch service

8

3-inch service

2

4-inch service

2

6-inch service

1

Total

4634

6. Water Sales (Ccf) - Metered Customers:

594,000

APPENDIX D
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Del Oro Water Company
Paradise Pines District
Adopted Quantities
Test Year 2005

Tax Calculations

Operating Revenues	\$ 1,476,883
Expenses	\$ 1,085,689
Depreciation	\$ 127,056
Taxes other than Income	\$ 56,714
Taxable Income for State	\$ 107,413
State tax	\$ 9,495
Taxable Income for Federal	\$ 97,918
Federal tax	\$ 21,739

California Corporate Franchise Rate	8.84%
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Federal Income Tax Rate	
On first \$50,000 of taxable income	15%
On next \$25,000 of taxable income	25%
On next \$25,000 of taxable income	34%